

# WHY PAY THE UNEMPLOYED?

One longstanding government-sponsored feature of the labor market is unemployment insurance for payroll workers. Instituted during the “great depression,” it helps to maintain household incomes for the unemployed and stabilizes the overall economy during recessions.

Labor markets are dynamic and fluid. In good times and bad, there are businesses that are expanding, hiring, and being born while others contract, lose jobs, and even die. Workers change jobs, lose jobs, retrain, find advancements, and move in and out of the labor force.

Most people suffer bouts of unemployment during their working life. At times those willing to work are unable to secure their next job for a time. When a worker is laid off from a job, whether it is temporary, seasonal, or a permanent loss due to closing or downsizing; usually the worker qualifies for unemployment insurance benefits. The unemployed receive a weekly payment to partially defray the loss of wages. The receipt of the weekly benefit is contingent on the jobless looking for work. Normally these payments continue until they find a new job or until a six-month benefit window expires.

One purpose of unemployment insurance is to help maintain the income of the household where the job has been lost. It makes it possible to help pay

rent, buy food, and otherwise continue to meet life’s expenses in the face of the loss of wages. This “income maintenance” function for an individual household is available whether the overall economy is good or bad, in times of economic expansion or contraction.

During an economic recession, unemployment benefits perform an important additional function for society as a whole. As jobs in the wider economy are lost in a recession, these unemployment benefits work against the self-reinforcing downward spiral of economic contraction. That is—lost jobs result in a loss of wages leading to lower consumption, falling incomes, less demand for business products and services which, in turn, must reduce investment and production, leading to more layoffs, these lost jobs reducing income to households, who lower consumption, etc.

Unemployment benefits work against the downward cycle—preserving purchasing power to households with an unemployed member while they pursue a new job, additional skill development and training. Thus unemployment benefits in a time of recession become an “automatic stabilizer” for the economy, helping to preserve consumer income and demand for businesses.

The recently concluded Utah economic expansion was at its strongest in 2006, with a total payout of 98.3 million in

unemployment benefits during the year. Still a very good year, 2007 saw a small increase in benefit payments to \$105.4 million.

As the Utah economy slid into recession in 2008 and unemployment began to rise, payments increased to a total of \$218 million, with \$31.2 million paid in December alone.

The Utah recession, with additional job losses, housing and financial difficulties are all expected to continue through at least the first half of 2009. Normal and emergency unemployment benefits will be paid out at record rates, helping to maintain the purchasing power of Utah households, demand for businesses, and stabilizing the overall economy. With time the inevitable bottom of this contraction will be reached and unemployment payments will support the early stages of a new expansion and the better economic future to come. ①

